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SEEKING BETTER INSURANCE CLASSIFICATION FOR SMALL CITIES[1]

By C. M. Roos

The problem of how to secure lower insurance rates is one with which many cities have wrestled, and in many cases unsuccessfully. It is not the intention to attempt in this discussion to give some startling solution by which any municipality can, without real effort and expense, enjoy a better insurance classification. The purpose is simply to treat the subject of fire insurance from a standpoint which will show in an unprejudiced way some of the reasons why some cities have not been more successful in securing a better insurance classification.

It is fully recognized that the fixing of insurance rates and classifications has been almost entirely in the hands of a private independent organization, which controls the situation and which, to a large degree, has dictated its own terms and policies. This fact, of having within itself almost exclusive authority to dictate its own policies in dealing with the public, has resulted in possibly an unfair advantage having been taken of some cities in some instances by the fire underwriters. A distinct prejudice against the insurance organizations has sprung up in many cities on account of this.

The state insurance organizations as well as the National Board of Fire Underwriters have made desperate attempts to stem the tide of public prejudice against them, and in doing so have worked along intelligent, scientific lines. One of the steps taken in this direction is the recent adoption of new fixed standards and rules, which eliminate very largely discrimination in classifying cities. The Standard Schedule for Grading Cities and Towns of the United States with Reference to Their Fire Defenses and Physical Conditions, adopted by the National Board of Fire Underwriters, of New York City, in 1915, is a complete, scientific work by which a city's protection against fire can be quite accurately measured in a comparative manner. No attempt is here made to defend the methods which have been in use in classifying cities. It is quite generally admitted by the fire insurance authorities themselves that in the past the standards in use by which to measure a city's ability to prevent and cope with fires were not uniform, and that discrimination, intentional or otherwise, was often charged and actually existed. No attempt is made here, either, to justify the insurance organizations for some of their rulings and decisions of the past.

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[1] Read before the Illinois Section at Urbana, on March 13, 1917.

It is desired, however, to place special emphasis upon the fact that the recently adopted national standard is a scientific work. It shows evidence of having been prepared in the best of faith and along proper lines. A study of it convinces one of the difficulty encountered in attempting to prepare a standard that will cover all cities. Local conditions are not the same in any two communities. It is necessary to have a classification schedule sufficiently flexible to permit its use in measuring any city, and yet of a character that its use in measuring a city's defense against fire will be fair, equitable and scientific. Fire insurance classification must be along scientific lines. It cannot safely be otherwise, and must not be allowed to be otherwise. Neither the insured nor the insurer can assume the risk of having it otherwise.

There is a strong tendency toward favoring local or mutual insurance organizations, which undoubtedly has resulted from some of the past methods of the fire underwriters. It is proper that a word of warning be given in this connection. No local or mutual insurance organization can afford to take fire risks that are not, to a degree, at least, scientifically figured. The fact that a certain building without fire protection has stood for thirty years without a fire loss, is no argument why any company or organization is justified in placing insurance upon it at a very low rate. The fact that a certain city with only ordinary fire protection has had a very low fire loss covering a period of a number of years, is no argument why that city should have a lower insurance rate than a similar city with similar fire protection, which has had a higher fire loss in the same period, as there is no guarantee that the future losses of the first city will not be heavy.

Many applicants for life insurance are rejected each year by our large reliable life insurance companies on account of some physical defects on the part of the applicants. The fact that some of these rejected applicants live to be much older than some of those who passed the physical examination and secured insurance, is no argument why the life insurance companies can afford to accept all risks without examination. The mortality tables of life insurance companies are accurately figured, and it is directly due to this fact that their risks are scientifically and carefully selected. The exceptional cases cannot govern action by any insurance organizations.

There are many instances in nearly every small city where a business firm will decide upon a location for a large structure and construct it without giving the matter of fire protection any consideration whatever until the time comes to get a rate for insurance. The lack of proper fire protection in such a structure may not only have a decided effect upon the rate for the building itself, but may effect the rate in the entire block in which it is located.

The public water supply in many small cities is very often provided for without figuring in advance what results can be obtained from a fire protection standpoint. Approximately 50 per cent of the cost of the average public water-works system is directly to provide for fire protection. No such expenditure should be made without first determining what results can be obtained.

In many small cities the fire department is not efficient. It is not always due to failure to expend sufficient money to make the fire department efficient that some cities do not have in their fire departments that which the insurance authorities ask for. It is often because the money had not been used to the best advantage. High priced equipment in a fire department doesn't always spell Efficiency.

The average small city has laws governing building, wiring and other physical conditions within certain restricted limits, but in many cases these laws are either improperly framed, or, if adequate, they are not enforced. A good law covering any one of these subjects, which is not enforced, has no value whatever and cannot give the city any credit from a fire insurance standpoint.

This entire discussion thus far is a plea for recognition on the part of the smaller cities of the value and absolute necessity of recognizing scientific methods for preventing and fighting fires.

Assuming that it is generally agreed that it is proper that a scientific standard for insurance classification for all cities should be adopted, and further, that it is directly to the interest of the individual, the municipality and the insurance companies that such a standard govern in all cases, the next step is to determine whether the local community or the small city is getting its full benefit or share of the standard adopted, and the best way to secure the maximum benefits to which it is entitled under such a standard.

What can prevent a city from enjoying what it is entitled to under a schedule which applies throughout the entire United States? Why should not any city demand and enjoy its rights under such a plan? In the first place the matter must be handled intelligently, not by inexperienced, unscientific men. Here is one of the big mistakes which have been made by small cities in dealing with this matter. Not all of the mistakes in wrestling with fire insurance problems have been made by the insurance companies. Many of them have been made by the insured themselves.

The amount of money paid out in insurance premiums in the average small city is much larger than is generally known, yet with the large amount involved in the insurance of the physical property of a community, all of which comes directly out of the pockets of the individual citizens, there has been little intelligent scientific thought given it by the insured, there has been no coöperation whatever by those who are paying the money, there has been no study of the subject, and there has been very little effort made to reduce fire risks.

There has been community coöperation along many other lines, but little if any along the line of reducing fire risks. The shippers of a community have expert traffic men, who, in addition to the salaries they receive, save thousands of dollars annually for the shippers. In almost any small city an expert on fire prevention, who would give his entire time to it, would save to the community his own salary, and in addition, a large sum in lower insurance premiums each year. But the saving would not only be reflected in the annual insurance premiums. Fire insurance cannot cover all losses to an individual or a community. The saving of property which fire insurance cannot cover, and the increased real estate values as a result of improving the appearance of the community, would more than pay such an expert's salary. Some cities are now securing the assistance of the engineers of the insurance companies in making their plans for municipal improvements, consulting them in advance that they can secure the maximum results from a fire insurance standpoint for the money to be expended.

Most cities have enough money invested in their water works and fire departments to insure the maximum fire protection at minimum insurance rates, but they are not enjoying this benefit because the money has not been expended efficiently. It always pays to secure scientific expert advice before spending money in making improvements of this character. A building poorly designed may cost more than one designed along proper lines, and after it is constructed it is difficult and expensive to correct the errors and get desired results. Several cases are known where large structures were being planned and expert advice on how to secure maximum fire protection for the buildings, at very little additional first cost, was offered gratis for the good of the community, and the matter was not considered of sufficient importance to accept the offer.

The best results can be obtained by small cities in securing the best classification possible for fire insurance by working together in sections or states. All cities under a certain size should be represented by committees or individuals who have made a study of the insurance problem, at conferences or conventions called at certain intervals, where a thorough, practical study can be made of the standards set up by the underwriters, and also to what extent such standards can be applied to the several communities represented. These studies should be scientific. Such a plan would unquestionably result in small cities securing a clearer conception of what fire prevention and protection really mean, in qualifying them to adopt proper city laws to control fire risks, and to get the maximum results for every dollar expended for equipment for water-works and fire departments. Such a plan would also enable small cities to coöperate with the insurance organizations, and to demand the classification to which they are entitled. No small city would be left to fight its insurance troubles alone, without being properly equipped to discuss the subject intelligently. Work along these lines would correct many errors now existing, and would prevent many errors which are continually being made by municipalities in providing for fire protection.

Combine the amount of money expended each year by cities in Illinois with less than 25,000 population, in maintaining fire departments and in paying fire insurance premiums, and we have a total that staggers us. There is probably no other enterprise in the state involving the actual expenditure of such a vast sum of money each year that is handled so carelessly or indifferently. Here is a hint to some of our cities as to where a saving can be made in the annual city expenses.